

INTERIM REPORT

July–September 2019



XMReality AB (publ), Interim Report, July–September 2019

There was a strong growth in sales of software subscriptions during the quarter compared to the preceding year. The steep rise in the gross margin also continued, accompanied by strong demand from several of our largest customers. XMReality's total sales for the third quarter fell slightly compared to the same period in 2018, as an effect of the sales mix, which is undergoing a change and becoming dominated by software subscriptions, which represented 78% of sales at the end of the period. Short term, the change in the mix has a negative effect on sales growth but a positive effect on the gross margin. The proportion of subscription revenue is expected to continue rising in future.

July–September 2019

- Net sales amounted to SEK 2,686 thousand (2,766)
- Costs totaled SEK -10,278 thousand (-10,026)
- The net loss was SEK -6,369 thousand (-5,791)
- Net cash used in the period was SEK -9,214 thousand (-6,316) and the equity/assets ratio at the end of the period was 73.9% (80.5)

Costs in the period increased slightly compared to 2018, attributable mainly to investments in growth or online sales of the Remote Guidance subscription service. The net result of operations weakened slightly compared to the preceding year. Cash flow in the third quarter was reduced by investments in growth.

January–September 2019.

- Net sales amounted to SEK 8,700 thousand (6,905)
- Costs totaled SEK -32,627 thousand (-32,825)
- The net loss was SEK -19,687 thousand (-20,981)
- Net cash used in the period was SEK -20,037 thousand (-22,224)

Total billing increased by 28% compared to the first three quarters of 2018 to SEK 8,916 thousand (6,983), of which approximately 80% was generated by software subscriptions. Subscription charges that have been billed but not yet recognized in revenue*) increased by 45% to SEK 4,251 thousand (2,939). Revenues from subscriptions with contracted automatic extensions, which are recognized on a monthly basis, totaled SEK 789 thousand (584) at the end of the period, an increase of 35%.

Significant events during the period of July–September 2019

- XMReality closed new group-wide general agreement.
- Launch of XMReality Business. This web-based customer offering enables automated sales as a complement to direct sales to large global industrial companies. The launch has made it possible to sell Remote Guidance worldwide. The offering is aimed primarily aimed at small and medium-sized enterprises.



Interim Report July-September 2019

Establishment in the US

We initiated a venture in the American market during the quarter and have established operations in the US. The build-up of the organization is in progress, the first recruitments are confirmed, and additional recruitments are planned in the near future.

Organization

We have hired a general manager, who has experience with software companies and SaaS offerings, for our US subsidiary.

We have also made substantial investments in digital marketing and reinforced the company with a digital marketing manager consequent upon the launch of our online offering.

The HR manager will be leaving the company in November and the role will be filled on a consultant basis.

*) XMReality subscriptions normally run for 12 months for enterprise sales and 1 month with automatic extension for online sales. They are billed in advance and recognized in revenue on a straight-line basis over the term of the contract. Revenue from sales of hardware and services are recognized after delivery is complete, which coincides with the billing date. Billed subscription charges that have not yet been recognized in revenue are reported on the balance sheet.

Message from the CEO



Sales growth for XMReality software subscriptions remained strong in the third quarter. The steep rise in the gross margin continued, accompanied by strong demand from several of our largest customers.

Online offering launched

The company launched a Software as a Service offering during the quarter under the XMReality Business brand. The offering is sold and delivered via the web and is aimed primarily at small and medium-sized enterprises.

The launch widens XMReality's addressable market considerably and lowers the threshold for new customers to use Remote Guidance. The addressable market is expanding with regard to both company size and new applications. It is easy to begin using XMReality Business, which enables usage by non-registered users.

The new offering has resulted in a more efficient sales process. A new customer can easily download the software and pay by card with no need to contact anyone at XMReality. In addition, XMReality can focus its direct sales initiatives on upselling to existing customers with large volume potential. It will be even faster and easier for existing customers to increase the number of users via the self-service feature online.

XMReality Business has opened the door to viral growth, where a user that has participated in a Remote Guidance call can easily market XMReality software.

Consequent upon the launch of the online offer, XMReality invested in digital marketing during the quarter and reinforced the team with a digital marketing manager.

Sustainability

The company's competitive Remote Guidance software is a service that promotes sustainable service and customer support. Demand for climate-smart technology is still growing and the XMReality SaaS offering is an outstanding example of cost-effective and fossil-fuel free remote service.

Establishment in the US

We stepped up the company's international presence during the quarter by opening a subsidiary with physical presence in the eastern US and recruited an American general manager with SaaS experience.

XMReality goes where its customers go internationally and companies are using the offering in more than 30 countries.

XMReality made a joint presentation with ABB at an internationally leading Aftermarket trade show, demonstrating how ABB is using XMReality Remote Guidance as part of its service offering to customers on a global basis.

With the combination of the offering and the establishment in the American market, XMReality is reaching companies large and small across the globe. In parallel, the company has lowered the Remote Guidance user threshold for new customers and made it simpler for existing customers to easily scale up the number of users. Overall, XMReality has a strong position in the market and conditions for continued expansion are good.

Johan Castevall, CEO
Linköping, 25 October 2019

Income statement (Amounts in SEKk)

	January–September		July–September		Full year
	2019	2018	2019	2018	2018
Net sales	8,700	6,905	2,686	2,766	10,155
Capitalized production costs	4,081	4,079	1,199	1,027	5,478
Other operating income	159	860	24	442	999
Total income	12,939	11,844	3,908	4,235	16,632
Raw materials and consumables	-1,043	-2,208	-254	-501	-3,023
Other operating expenses	-14,140	-12,083	-4,749	-3,261	-16,856
Employee benefits expenses	-14,356	-15,012	-4,180	-4,707	-20,404
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-3,022	-2,787	-1,076	-1,029	-4,069
Other operating costs	-14	-666	-6	-507	-1,530
EBIT	-19,635	-20,912	-6,356	-5,770	-29,250
Financial income and similar profit items	0	0	0	0	21
Financial expenses and similar loss items	-52	-69	-13	-21	-88
Profit (-loss) after net financial income	-19,687	-20,981	-6,369	-5,791	-29,317
Income tax expense for the period	0	0	0	0	0
Profit (-loss) for the period	-19,687	-20,981	-6,369	-5,791	-29,317
Earnings per share(SEK)	-1.15	-1.44	-0.37	-0.40	-1.72
Average number of shares during the period	17,050,000	14,607,982	17,050,000	14,607,982	14,982,648
Shares outstanding at the end of the period	17,050,000	14,607,982	17,050,000	14,607,982	17,050,000

Balance sheet (Amounts in SEKk)

	30 Sep 2019	30 Sep 2018	31 Dec 2018
Assets			
Non-current assets			
Capitalized development costs	15,928	14,431	14,754
Machinery and plant	0	313	0
Equipment, tools and systems	413	567	528
Financial assets	58	8	8
Total non-current assets	16,399	15,319	15,290
Current assets			
Inventories	179	801	261
Current receivables	3,419	4,418	5,978
Cash and bank balances	17,761	24,017	37,798
Total current assets	21,360	29,236	44,037
Total assets	37,759	44,555	59,327
Equity and liabilities			
Equity	27,920	35,845	47,608
Non-current liabilities	458	1,000	844
Current liabilities ²	9,381	7,710	10,875
Total equity and liabilities	37,759	44,555	59,327
² Of which interest-bearing liabilities	542	717	692
Collateral provided	3,700	3,700	3,700
Contingent liabilities	None	None	None

Statement of changes in equity (Amounts in SEKk)

	January-September		July-September		Full year
	2019	2018	2019	2018	2018
Balance at the beginning of the period	47,608	56,826	34,290	41,659	56,827
New share issue (net of issue costs)	-	-	-	-	20,098 ²
Profit (-loss) for the period	-19,687	-20,981	-6,369	-5,791	-29,317
Balance at the end of the period	27,920	35,845	27,920	35,845	47,608
Average number of shares during the period	17,050,000	14,607,982	17,050,000	14,607,982	14,982,648
Shares outstanding at the end of the period	17,050,000	14,607,982	17,050,000	14,607,982	17,050,000

²New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

Statement of cash flow (Amounts in SEKk)

	January-September		July-September		Full year
	2019	2018	2019	2018	2018
Operating activities					
Cash flow (-used) before changes in working capital	-16,820	-18,206	-5,348	-4,793	-25,367
Changes in working capital	1,299	460	-2,543	-210	2,714
Cash flow from (-used in) operating activities	-15,521	-17,746	-7,891	-5,003	-22,653
Cash flow from (-used in) investing activities	-4,081	-3,943	-1,199	-1,140	-5,196
Cash flow from (-used in) financing activities	-435	-535	-125	-173	19,406
Cash flow for (-used in) the period	-20,037	-22,224	-9,214	-6,316	-8,443
Cash and cash equivalents at beginning of period	37,798	46,241	26,976	30,333	46,241
Cash and cash equivalents at end of period	17,761	24,017	17,761	24,017	37,798

Overview of financial performance (SEK)

An overview of the financial performance of XMReality AB (publ) for the period of January–September 2019 and for the full years of 2015–2018 is presented below. All figures for the financial years of 2015–2018 are based on material taken from official, published annual reports.

	Jan–Sep 2019	2018	2017	2016	2015
Net sales	8,700	10,155	6,683	5,155	3,532
Operating profit (-loss)	-19,635	-29,250	-22,633	-9,976	-4,195
Profit (-loss) after net financial income	-19,687	-29,317	-22,741	-10,041	-4,275
Profit margin, %	neg.	neg	neg	neg	neg
Intangible assets	15,928	14,754	12,458	6,595	4,592
Tangible assets	413	528	1,705	901	0
Financial assets	58	8	0	25	25
Inventories	179	261	306	587	1,589
Current receivables	3,419	5,978	6,014	2,297	1,592
Cash and bank balances	17,761	37,798	46,241	22,100	1,184
Equity	27,920	47,608	56,826	26,556	2,749
Non-current liabilities	458	844	1,535	2,428	4,212
Current liabilities	9,381	10,875	8,362	3,521	2,021
Total assets	37,759	59,327	66,724	32,505	8,982
Return on average capital employed, %	neg.	neg	neg	neg	neg
Return on average equity, %	neg.	neg	neg	neg	neg
Equity/assets ratio, %	73.9	80.2	85.6	81.7	30.6
Debt/equity ratio, multiple	0.04	0.04	0.04	0.1	1.57
Interest coverage ratio, %	neg.	neg	neg	neg	neg
Quick ratio, %	225.8	402.5	649.1	693.0	137.4
Number of employees (end of the period)	19	23	19	14	5
Investments					
Intangible assets	4,081	5,478	6,687	2,999	2,121
Tangible assets	0	140	1,908	901	0
Deposits	50	8	-	-	-
Basic earnings per share, SEK	-1.15	-1.72	-1.56	-1.20	-0.83
Average number of shares during the period	17,050,000	14,982,648	13,175,227	7,202,593	4,822,763
Shares outstanding at the end of the period	17,050,000	17,050,000	14,607,982	8,368,420	5,133,280

Definitions of key data

Debt/equity ratio	Interest-bearing liabilities divided by equity
Earnings per share	Profit or loss after tax divided by average number of shares outstanding
Equity	The sum of shareholders' equity, restricted reserves and non-restricted equity
Equity/assets ratio	Equity divided by total assets
Interest coverage ratio	Earnings before interest divided by interest expenses
Profit margin	Profit after net financial income or expense divided by sales
Return on average capital employed	Profit or loss before interest expense divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Quick ratio	Cash and current assets excluding inventories divided by current liabilities

Accounting policies

The interim report is prepared in compliance with the Swedish Annual Accounts Act and BFAR 2012:1 Annual and Consolidated Accounts (K3). The accounting policies have not changed compared to previously reported periods. Assets, provisions and liabilities have been valued at cost unless otherwise specified. Transactions denominated in foreign currency are converted at the spot rate in effect on the transaction date.

Risk factors and uncertainties

A number of risk factors could have negative impact on the business of XMReality AB (publ). It is therefore imperative to consider relevant risks alongside the Company's growth potential. Refer to the XMReality Annual Report 2018, page 19, "Risk factors" for a more detailed description of the risks associated with the Company and its stock.

The board of directors has assessed current and available liquidity as sufficient to assure continuing operation.

Stock

Shares in XMReality AB (publ) are listed on Nasdaq First North Growth Market. The stock ticker is XMR and the ISIN code is SE0009664188. At the end of the period, there were 17,050,000 shares outstanding in XMReality AB (publ) (unchanged since 31 December 2018). There is only one share class. Each share carries one vote. There is an outstanding stock option plan 2016/2020 carrying rights to subscribe for up to 120,000 shares. The 2019 Annual General Meeting resolved in favor of a further stock option plan 2019/2022 carrying rights to subscribe for up to 500,000 shares. Options from this plan corresponding to the right to subscribe for 100,000 shares were allocated equally between two members of executive management, Marcin Szymanski and Per Unell. A further offer to acquire options within the framework of this plan will be extended to additional employees later this year or at the beginning of next year.

Certified advisor

XMReality's Certified Adviser is Redeye AB.

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Auditor review

This interim report has not been reviewed by the company's auditor.

Submission of interim report

The board of directors and chief executive officer certify and assure that this interim report provides a true and fair view of the company's operations, financial position and earnings.

Financial reporting calendar:

Year-end report 2019

14 February 2020

Linköping, 25 October 2019

Board of Directors

The information in this news release is such that XMReality AB (publ) is required to make public in accordance with the Market Abuse Regulation issued by the EU. The information was released by the contact person listed below for publication on 25 October 2019 at 08:30 CEST.

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